

**Kensington Woods High School**

**Howell, Michigan**

**Audited Financial Statements**

**June 30, 2008**

CROSKEY, LANNI & COMPANY, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

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## **INDEPENDENT AUDITOR'S REPORT**

### **To the Board of Directors of Kensington Woods High School**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kensington Woods High School, as of and for the year ended June 30, 2008, which collectively comprise the Academy's basic financial statements listed in the table of contents. These financial statements are the responsibility of Kensington Woods High School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Kensington Woods High School as of June 30, 2008, and the respective changes in financial position, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 1, 2008 on our consideration of Kensington Woods High School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages iii through viii, and 17, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The introductory and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kensington Woods High School's basic financial statements. The introductory section, combining and individual non major fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
Croskey, Lanni & Company, P.C.

August 1, 2008  
Rochester, Michigan

## **Kensington Woods High School**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of Kensington Woods High School's, "KWHs", annual financial report presents our discussion and analysis of the school's financial performance during the fiscal year that ended on June 30, 2008. Please read it in conjunction with the school's financial statements, which immediately follow this section.

#### **FINANCIAL HIGHLIGHTS**

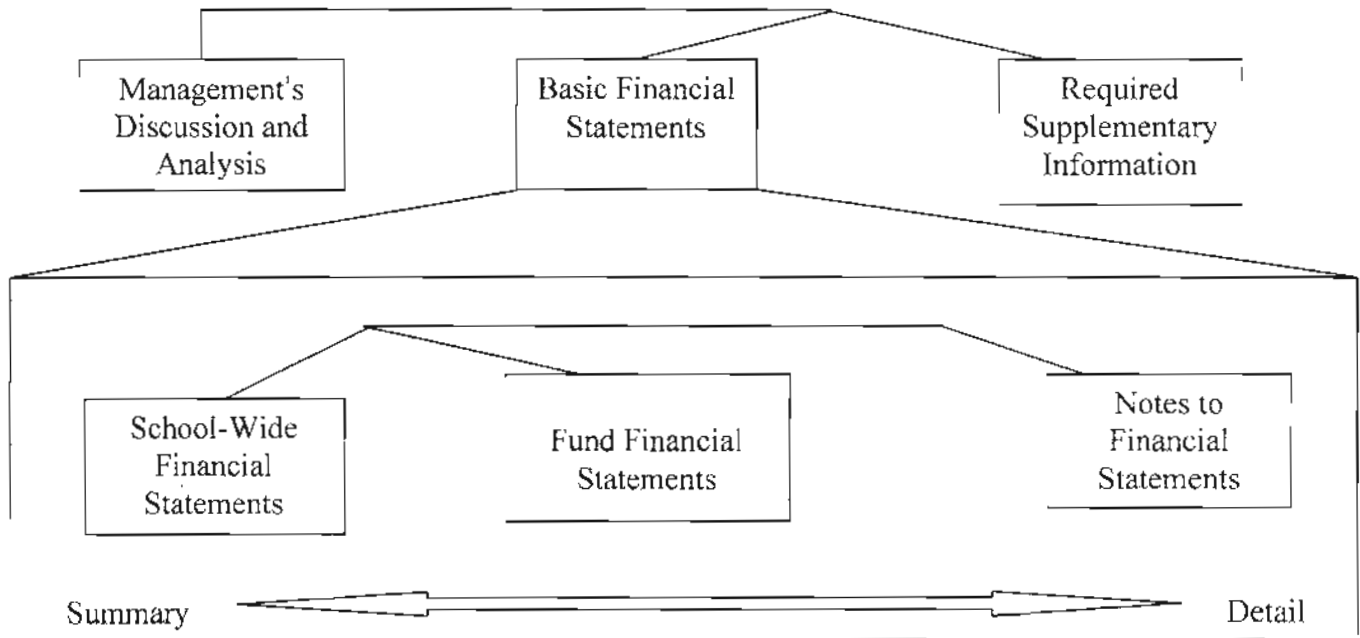
- ❖ The school received an increase in state aid resulting in a per pupil allowance of \$7,204.
- ❖ Student enrollment increased to 260 as compared to 240 last year.
- ❖ The total cost of basic programs was \$695,578.
- ❖ Revenues were at \$2,189,849 while expenses were \$2,117,800.
- ❖ The school reduced its outstanding long-term debt, which consists of capital leases by \$67,731.
- ❖ The school has a positive fund balance of 11% of current year revenue in the General of \$245,237.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements which include two kinds of statements that present different views of the school:

- The first two statements are school-wide financial statements that provide both short-term and long-term information about the school's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the school, reporting the schools operations in more detail.
- The governmental fund statements tell how basic services like regular and special education were financed.
- Fiduciary funds statements provide information about the financial relationships in which the school acts solely as a trustee or agent for the benefit of others. These consist of student activity funds held by the school on behalf of the student group.

**Figure A-1**  
**Organization of KWS'S Annual Financial Report**



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the school's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-2**  
**Major Features of School-Wide and Fund Financial Statements**

Fund Financial Statements			
	School-Wide Statements	Government Funds	Fiduciary Funds
Scope	Entire school (except fiduciary funds)	The activities of the school that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the school administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required Financial Statements	*Statement of net assets *Statement of activities	*Balance sheet *Statement of revenues, expenditures and changes in fund balances	*Statement of fiduciary net assets *Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the school's financial statements, including the portion of the school's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

## **SCHOOL-WIDE STATEMENTS**

The school-wide statements report information about the school as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the school's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two school-wide statements report the school's net assets and how they have changed. Net assets – the difference between the school's assets and liabilities – are one way to measure the school's financial health or position.

- ❖ Over time, increases or decreases in the school's assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- ❖ To assess the overall health of the school, you need to consider additional non-financial factors such as changes in the school's enrollment and the condition of school buildings and other facilities.

## **FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the school's funds, focusing on its most significant or "major" funds – not the school as a whole. Funds are accounting devices the school uses to keep track of specific sources of funding and spending on particular programs:

- ❖ *Governmental activities* – Most of the school's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.
- ❖ The school establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues.

The school has two kinds of funds:

- ❖ *Governmental funds* – Most of the school's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the school's programs. Because this information does not encompass the additional long-term focus of the school-wide statements, we provide additional information with governmental funds statements that explains the relationship (or differences) between them.
- ❖ *Fiduciary funds* – The school is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the school-wide financial statements because the school cannot use these assets to finance its operations.

## **FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE**

The comparison of current year to prior year financial information is on the following pages. See tables A-3, A-4, and A-5.

The school's financial position is the product of many factors. The asset depreciation schedule was implemented three years ago as required by GASB 34.

### **School Governmental**

The stability of the school's finances is a result of the following measures:

- ❖ Continued increase in enrollment.
- ❖ Enrollment in evening program continues to increase allowing for additional student capacity.
- ❖ Capital lease payments will reduce drastically in coming school year.
- ❖ The school is looking to acquire additional space to increase its academic program.

### **General Fund Budgetary Analysis**

Over the course of the year, the school reviewed the annual operating budget each month and amended the budget twice during the year. All invoices were paid in a timely matter.

### **Financial Outlook**

Kensington Woods High School's financial forecast continues to be optimistic heading into the 2008-2009 school year.

- ❖ Enrollment continues to grow with an estimated enrollment of 260 for 2007-2008.
- ❖ Continues refinement of evening program as well as the addition of elective courses like Art and Foreign Language.



Appendix A

Table A-3  
KWHS's Net Assets

	2008	2007
Current and other assets	\$ 526,318	\$ 546,298
Capital assets	199,849	213,530
Total assets	726,167	759,828
Long-term debt outstanding	20,898	156,085
Other liabilities	348,537	384,962
Total liabilities	369,435	541,047
Net assets:		
Restricted	111,495	57,445
Unrestricted	245,237	161,336
Total net assets	\$ 356,732	\$ 218,781

Table A-4  
Changes in KWHS's Net Assets

	2008	2007
Revenues:		
Program revenues:		
Charges for services	\$ -	\$ 17,691
Federal and state operating grants	307,499	121,661
General revenues:		
State aid - unrestricted	1,875,037	1,711,373
Miscellaneous	19,165	-
Total revenues	2,201,701	1,850,725
Expenses:		
Instruction	836,182	631,806
Support services	1,151,068	1,042,994
Interest on long-term debt	20,999	31,721
Unallocated depreciation	55,501	50,450
Total expenses	2,063,750	1,756,791
Decrease in net assets	\$ 137,951	\$ 93,934

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

By the end of 2008, the school had invested \$41,820 consisting mainly of leasehold improvements to the building to add additional classroom space. See table A-5 below for a listing of capital assets, and the accumulated depreciation.

Table A-5 KWHS's Capital Assets			
	<u>Cost</u>	<u>Accumulated and depreciated</u>	<u>Net book value</u>
Computers	\$ 260,979	\$ 152,058	\$ 108,921
Leasehold Improvements	58,128	6,033	52,095
Equipment	<u>72,274</u>	<u>33,441</u>	<u>38,833</u>
Total	<u>\$ 391,381</u>	<u>\$ 191,532</u>	<u>\$ 199,849</u>

### **Long-Term Debt**

At year end the school had long term debt of \$87,394 consisting of business loans and a capital leases.

- The school continued to pay down its debt, retiring \$67,731.

## **FACTORS BEARING ON THE SCHOOL'S FUTURE**

- Continuation of positive enrollment trends
- State aid foundation grant stabilization
- Continued re-Branding of school to Kensington Woods High School
- Added programs like Art, Foreign Language and Extended Day program.
- Continued work to expand facilities to increase enrollment possibilities.

## **CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our students, parents and creditors with a general overview of the school's finances and to demonstrate the school's accountability for the money it receives. If you have questions about this report or need additional information, contact the school's office at:

Kensington Woods High School, 3700 Cleary Drive, Howell MI 48843

# KENSINGTON WOODS HIGH SCHOOL

## STATEMENT OF NET ASSETS

JUNE 30, 2008

See Independent Auditor's Report

### ASSETS

#### Current Assets

Cash and cash equivalents	\$ 121,602
Accounts receivable	7,489
Due from other governmental units	348,119
Prepaid expenses	<u>49,108</u>
Total current assets	526,318

#### Furniture and Equipment

At cost less accumulated depreciation of \$191,532	<u>199,849</u>
Total assets	<u><u>\$ 726,167</u></u>

### LIABILITIES AND NET ASSETS

#### Current Liabilities

Accounts payable	\$ 20,865
Notes payable	250,000
Other accrued expenses	10,216
Long-term debt and capital lease - current portion	<u>67,456</u>
Total current liabilities	348,537

Long-Term Debt and Capital Lease - Long-Term Portion	20,898
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#### Net Assets

Invested in capital assets, net of related debt	111,495
Unrestricted	<u>245,237</u>
Total net assets	<u>356,732</u>
Total liabilities and net assets	<u><u>\$ 726,167</u></u>

See accompanying notes to financial statements

# KENSINGTON WOODS HIGH SCHOOL

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008 See Independent Auditor's Report

Functions	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants	Government Type Activities
High school	\$ 695,578	\$ -	\$ -	\$ (695,578)
Special education	140,604	-	82,965	(57,639)
Support services	56,560	-	-	(56,560)
Improvement of instruction	7,529	-	-	(7,529)
General administration	10,754	-	-	(10,754)
Executive administration	143,504	-	-	(143,504)
Business administration	242,015	-	-	(242,015)
Business support services	90,365	-	-	(90,365)
Operations and maintenance	351,454	-	-	(351,454)
Communication services	226,160	-	224,534	(1,626)
Other business services	22,727	-	-	(22,727)
Unallocated depreciation	55,501	-	-	(55,501)
Unallocated interest	20,999	-	-	(20,999)
Total primary government	<u>\$ 2,063,750</u>	<u>\$ -</u>	<u>\$ 307,499</u>	<u>(1,756,251)</u>

### General Purpose Revenues:

State school aid - unrestricted	1,875,037
Tuition	16,391
Contributions	1,250
Miscellaneous	<u>1,524</u>
Total general purpose revenues	<u>1,894,202</u>
Excess of revenues over expenses	137,951
Net assets - July 1, 2007	<u>218,781</u>
Net assets - June 30, 2008	<u>\$ 356,732</u>

See accompanying notes to financial statements



**KENSINGTON WOODS HIGH SCHOOL**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**JUNE 30, 2008**

See Independent Auditor's Report

**ASSETS**

	<u><b>General</b></u>
Cash	\$ 121,602
Accounts receivable	7,489
Due from other governmental units	348,119
Prepaid expenses	<u>49,108</u>
 Total assets	 <u><u>\$ 526,318</u></u>

**LIABILITIES AND FUND BALANCES**

**Liabilities**

Accounts payable	\$ 20,865
Notes payable	250,000
Other accrued expenses	<u>10,216</u>
 Total liabilities	 281,081

**Fund Balances**

Unreserved:	
Undesignated	<u>245,237</u>
 Total liabilities and fund balances	 <u><u>\$ 526,318</u></u>

See accompanying notes to financial statements

**KENSINGTON WOODS HIGH SCHOOL**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS  
OF GOVERNMENTAL ACTIVITIES**

**JUNE 30, 2008**

**See Independent Auditor's Report**

Amounts reported for governmental activities in the statement of net assets are different because:

<b>Total Governmental Fund Balances</b>	<b>\$ 245,237</b>
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$391,381 and the accumulated depreciation is \$191,532.	199,849
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(88,354)</u>
<b>Net Assets of Governmental Activities</b>	<b><u>\$ 356,732</u></b>

# KENSINGTON WOODS HIGH SCHOOL

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2008 See Independent Auditor's Report

	<u>General</u>
<b>Revenues</b>	
Local sources	\$ 19,165
State sources	1,913,795
Federal sources	<u>256,889</u>
Total governmental fund revenues	2,189,849
<b>Expenditures</b>	
High school	695,578
Special education	140,604
Support services	56,560
Improvement of instruction	7,529
General administration	10,754
Executive administration	143,504
Business administration	242,015
Business support services	90,365
Operations and maintenance	351,454
Communication services	226,160
Other business services	22,727
Capital outlay	41,820
Debt principal and interest	<u>88,730</u>
Total governmental fund expenditures	<u>2,117,800</u>
Excess of revenues over expenditures	72,049
<b>Other Financing Sources</b>	
Payment from intermediate school district	<u>11,852</u>
Excess of revenues and other financing sources over expenditures	83,901
Fund balance - July 1, 2007	<u>161,336</u>
Fund balance - June 30, 2008	<u><u>\$ 245,237</u></u>

See accompanying notes to financial statements

## KENSINGTON WOODS HIGH SCHOOL

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008 See Independent Auditor's Report

Amounts reported for governmental activities in the statement of activities are different because:

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 83,901</b>
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an individual cost of more than \$100 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	\$ 41,820	
Depreciation expense	<u>(55,501)</u>	(13,681)

The governmental funds report loan proceeds as an other financing source, while repayment of loan principal is reported as an expenditure. The net effect of these differences in the treatment of general loan obligations is as follows:

Principal payments on long-term debt	<u>67,731</u>
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<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ 137,951</u></b>
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**KENSINGTON WOODS HIGH SCHOOL**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
FOR THE YEAR ENDED JUNE 30, 2008  
See Independent Auditor's Report**

**ASSETS**

	<u>Agency</u>
Cash and cash equivalents	\$ 3,346
Total assets	<u>\$ 3,346</u>

**LIABILITIES**

Due to student groups	\$ 3,346
Total liabilities	<u>\$ 3,346</u>

See accompanying notes to financial statements



**KENSINGTON WOODS HIGH SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
See Independent Auditor's Report

**NOTE 1 - Summary of Significant Accounting Policies**

The accounting policies of Kensington Woods High School (the "Academy") conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

**Reporting Entity**

Kensington Woods High School, formerly Livingston Technical Academy, was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, on August 16, 2000, and began operation in September 2000.

In June 2002, the Academy entered into a five-year contract with Central Michigan University's Board of Trustees to charter a public school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State constitution. The University's Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays Central Michigan University's Board of Trustees three percent of state aid as administrative fees. Total administrative fees paid for the year ended June 30, 2008 were approximately \$56,100.

In July 2005, the Academy entered into a five-year agreement with CS Partners, LLC ("CSP"). Under the terms of this agreement "CSP" provides a variety of services including financial management, educational programs and consulting, as well as teacher training. The Academy is obligated to pay "CSP" a fee equal to 12% of state school aid through the termination of the contract. The total paid for these services amounted to \$218,000 for the year ended June 30, 2008.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operation of financial relationships with the public school Academy. Based on application of criteria, the Academy does not contain component units.

**Fund Financial Statements**

Fund financial statements report detailed information about the Academy. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The Academy only has a General Fund and is therefore designated as its major fund.

## **KENSINGTON WOODS HIGH SCHOOL**

### **NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2008**

See Independent Auditor's Report

#### **NOTE 1 - Summary of Significant Accounting Policies - Continued**

##### **Basis of Presentation - Fund Accounting**

The accounts of the Academy are organized on the basis of funds. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories.

##### **Governmental Funds**

A governmental fund is a fund through which most academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through a governmental fund.

**General Fund** - The general fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

**Fiduciary Fund** - The fiduciary fund is used to account for assets held by the Academy in a trustee capacity or as an agent. The agency fund is custodial in nature and does not involve the measurement of results of operations.

**Activity (Agency) Fund** - The Academy presently maintains an activity fund to record the transactions of a student group for school and school-related purposes. The fund is segregated and held in trust for the students.

Governmental funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within sixty days of the end of the current fiscal period.
- b. Payments for inventorable types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.
- c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.
- d. The State of Michigan utilizes a foundation allowance funding approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and so recognized as revenue in accordance with state law. A major portion of the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon continued qualification for such aid.

**KENSINGTON WOODS HIGH SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
See Independent Auditor's Report

**NOTE 1 - Summary of Significant Accounting Policies - Continued**

**Government-Wide Financial Statements**

The government-wide financial statements (i.e. the statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationships between the government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between expenses, and program revenues for each segment of the business-type activities of the Academy and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. The Academy does not allocate indirect expenses to programs. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or function is self financing or draws from the general revenues of the Academy.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Academy first utilizes restricted resources to finance qualifying activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

**Cash and Cash Equivalents**

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and GASB No. 40, Deposit and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity. State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, saving accounts, deposit accounts, and or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Corporation or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or Federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**KENSINGTON WOODS HIGH SCHOOL**  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008  
See Independent Auditor's Report

**NOTE 1 - Summary of Significant Accounting Policies - Continued**

**Receivables**

Receivables at June 30, 2008 consist primarily of state school aid due from the State of Michigan. All receivables are expected to be fully collected in July and August of 2008 and are considered current for the purposes of these basic financial statements.

**Prepaid Expenses**

Payments made to vendors for services that will benefit periods beyond June 30, 2008, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

**Capital Assets and Depreciation**

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The Academy does not possess any infrastructure assets. The Academy defines capital assets as those with an initial individual cost of more than \$100 and an estimates useful life in excess of one year.

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	10 - 50 years
Furniture and equipment	3 - 15 years
Computers and software	3 - 10 years

**Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of capital leases that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

**KENSINGTON WOODS HIGH SCHOOL**  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008  
See Independent Auditor's Report

**NOTE 1 - Summary of Significant Accounting Policies - Continued**

**Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws of regulations of other governments.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**NOTE 2 - Stewardship, Compliance and Accountability**

Annual budgets are adopted on a consistent basis with accounting principles generally accepted in the United States of America and state law for the general fund. All annual appropriations lapse at fiscal year end and encumbrances are not formally recorded.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. During the year ended June 30, 2008 the budget was amended in a legally permissible manner. There were no budget overruns during the year ended June 30, 2008.

**NOTE 3 - Deposits and Investments**

The Academy maintains cash balances at various financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000 per financial institution. The Academy's uninsured and uncollateralized cash balance as of June 30, 2008 amounted to \$113,871.

**NOTE 4 - Due From Other Governmental Units**

Amounts owed from governmental units and other consist of the following:

State sources	<u>\$ 348,119</u>
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**KENSINGTON WOODS HIGH SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
See Independent Auditor's Report

**NOTE 5 -Notes Payable**

The Academy has obtained a \$250,000 line of credit from a financial institution. The line was issued to provide the Academy with operating money during the course of the school year. The line bears interest at 6.6% and is due in full March, 2009. Activity on the line of credit can be summarized as follows:

	<b>Balance July 1, 2007</b>	<b>Additions</b>	<b>Retirements and Payments</b>	<b>Balance June 30, 2008</b>
Line of credit #1	\$ 300,000	\$ 100,000	\$ 400,000	\$ -
Line of credit #2	-	250,000	-	250,000
Total	<u>\$ 300,000</u>	<u>\$ 350,000</u>	<u>\$ 400,000</u>	<u>\$ 250,000</u>

**NOTE 6 - Accrued Expenses**

Amounts accrued at year end consist of the following:

University oversight	<u>\$ 10,216</u>
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**NOTE 7 - Capital Assets and Depreciation**

Capital asset activity of the Academy's governmental activities was as follows:

	<b>Balance July 1, 2007</b>	<b>Additions</b>	<b>Balance June 30, 2008</b>
Computers	\$ 178,786	\$ 835	\$ 179,621
Software	81,358	-	81,358
Furniture and fixtures	34,395	5,933	40,328
Office equipment	30,448	1,498	31,946
Leasehold improvements	<u>24,574</u>	<u>33,554</u>	<u>58,128</u>
Total cost	349,561	41,820	391,381
Less accumulated depreciation	<u>136,031</u>	<u>55,501</u>	<u>191,532</u>
Undepreciated cost	<u>\$ 213,530</u>	<u>\$ (13,681)</u>	<u>\$ 199,849</u>

Depreciation expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

**KENSINGTON WOODS HIGH SCHOOL**  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008  
See Independent Auditor's Report

**NOTE 8 - Long-Term Obligations Payable**

The following is a summary of long-term obligations for the Academy during the year ended June 30, 2008:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Retirements &amp; Payments</u>	<u>Balance June 30, 2008</u>	<u>Due Within One Year</u>
Business loan #1	\$ 64,688	\$ -	\$ 24,401	\$ 40,287	\$ 25,855
Business loan #2	42,497	-	22,203	20,294	20,294
Capital lease	48,900	-	21,127	27,773	21,307
Total long-term debt	<u>\$ 156,085</u>	<u>\$ -</u>	<u>\$ 67,731</u>	<u>\$ 88,354</u>	<u>\$ 67,456</u>

The Academy has obtained business loans from an unrelated third party bearing interest at .8% above the bank's prime rate, adjusted monthly and payable in monthly installments of \$2,287 and \$1,870 through December, 2009 and December 2010.

	<u>Principal</u>	<u>Interest</u>
2009	\$ 46,149	\$ 2,724
2010	13,472	315

The Academy is the lessee of various classroom and office equipment held under a capital lease agreements. The leases are collateralized by the equipment, bearing interest at 10.1% and expires during the year ending June 30, 2009.

2009	\$ 28,728
Less amount representing interest	<u>955</u>
Present value of minimum lease payments	<u>\$ 27,773</u>



## **KENSINGTON WOODS HIGH SCHOOL**

### **NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2008**

See Independent Auditor's Report

#### **NOTE 9 - Operating Lease**

The Academy has entered into an operating lease with a third party for facilities. The Academy is responsible for utilities, property taxes and repairs. The Academy is required to maintain adequate property and liability insurance coverage as well as maintain the property in like condition as at the inception of the lease term. The rent is fixed at \$180,000 for the first two years, with an annual increase in years three through ten. The property is held under a ten year non-cancelable lease term which began in July, 2003.

The approximate amount of operating lease obligations coming due for the next five years and in total are as follows:

2009	\$	231,200
2010		238,000
2011		245,000
2012		252,300
2013		259,700

The total rent expense included in the determination of net assets for the year ended June 30, 2008 amounted to \$224,476

#### **NOTE 10 - Retirement Plan**

All leased employees of the Academy are eligible to participate in a retirement plan established by the management company which qualifies under the provisions of section 401(k). Eligible employees may contribute up to 15% of their salaries under the terms of this plan. The Academy can elect to contribute to the employees at its discretion. The Academy's contributions to the plan for the year ended June 30, 2008 amounted to \$63,003

#### **NOTE 11 - Risk Management**

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since the Academy's inception.

David M. Croskey, CPA  
Thomas B. Lanni, CPA  
Carolyn A. Jones, CPA  
Clifton E. Powell Jr., CPA

**INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION**

**To the Board of Directors  
of Kensington Woods High School**

We have audited the accompanying basic financial statements of Kensington Woods High School for the year ended June 30, 2008. Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Kensington Woods High School. This information has been subjected to the procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

  
Croskey, Lanni & Company, P.C.

August 1, 2008  
Rochester, Michigan

# KENSINGTON WOODS HIGH SCHOOL

## REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2008

See Independent Auditor's Report on Supplemental Information

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
<b>Revenues</b>			
Local sources	\$ 15,000	\$ 15,000	\$ 19,165
State sources	1,959,790	1,913,795	1,913,795
Federal sources	177,330	262,193	256,889
Total governmental fund revenues	2,152,120	2,190,988	2,189,849
<b>Expenditures</b>			
High school	673,922	730,778	695,578
Special education	97,671	141,333	140,604
Support services	49,467	67,565	56,560
Improvement of instruction	42,560	10,060	7,529
General administration	11,500	11,500	10,754
Executive administration	133,032	143,596	143,504
Building administration	253,213	246,853	242,015
Business support services	183,082	90,900	90,365
Operations and maintenance	358,619	395,388	351,454
Communication services	166,448	230,000	226,160
Other business services	40,000	34,000	22,727
Capital outlay	30,000	6,086	41,820
Debt principal and interest	97,845	92,000	88,730
Total governmental fund expenditures	2,137,359	2,200,059	2,117,800
Excess (deficiency) of revenues over expenditures	14,761	(9,071)	72,049
<b>Other Financing Sources (Uses)</b>			
Payment from intermediate school district	10,000	11,851	11,852
Excess of revenues and other financing sources over expenditures and other uses	24,761	2,780	83,901
Fund balance - July 1, 2007	161,336	161,336	161,336
Fund balance - June 30, 2008	\$ 186,097	\$ 164,116	\$ 245,237

# KENSINGTON WOODS HIGH SCHOOL

## SCHEDULE OF REVENUES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2008

See Independent Auditor's Report on Supplemental Information

### Local Sources

Contributions	\$ 1,250
Student tuition	16,391
Miscellaneous	<u>1,524</u>
Total local sources	19,165

### State Sources

At risk	14,086
Special education	24,672
State aid	<u>1,875,037</u>
Total state sources	1,913,795

### Federal Sources

Dissemination grant	224,534
Special education	4,000
Title I	25,633
Title II A	2,670
Title V	<u>52</u>
Total federal sources	<u>256,889</u>

Total governmental fund revenues	<u><u>\$ 2,189,849</u></u>
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# KENSINGTON WOODS HIGH SCHOOL

## SCHEDULE OF EXPENDITURES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2008

See Independent Auditor's Report on Supplemental Information

### High School

Purchased services - salaries	\$ 414,150
Purchased services - benefits	137,063
Purchased services - payroll taxes	38,527
Dues and fees	849
Teaching supplies and textbooks	58,639
Tuition expense	46,350
	<hr/>
Total high school	695,578

### Special Education

Purchased services - salaries	98,017
Purchased services - benefits	34,005
Purchased services - payroll taxes	6,181
Supplies	2,401
	<hr/>
Total special education	140,604

### Support Services

Purchased services - salaries	28,549
Purchased services - payroll taxes	1,880
Contracted services	25,389
Travel	742
	<hr/>
Total support services	56,560

### Improvement of Instruction

Supplies and materials	4,859
Workshops and conferences	2,670
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Total improvement of instruction	7,529

### General Administration

Professional fees	7,766
Miscellaneous	2,988
	<hr/>
Total general administration	10,754

## KENSINGTON WOODS HIGH SCHOOL

### SCHEDULE OF EXPENDITURES - GOVERNMENTAL FUNDS - Continued FOR THE YEAR ENDED JUNE 30, 2008

See Independent Auditor's Report on Supplemental Information

#### **Executive Administration**

Management fees	87,400
University oversight	56,104
	<hr/>
Total executive administration	143,504

#### **Building Administration**

Purchased services - salaries	123,093
Purchased services - benefits	35,956
Purchased services - payroll taxes	10,073
Advertising	54,470
Dues and memberships	1,939
Postage and delivery	3,454
Supplies and other	12,244
Workshops and conferences	786
	<hr/>
Total building administration	242,015

#### **Business Support Services**

Bank fees	494
Liability insurance	2,471
Management fees	87,400
	<hr/>
Total business support services	90,365

#### **Operations and Maintenance**

Purchased services - salaries	24,431
Purchased services - benefits	7,803
Purchased services - payroll taxes	4,327
Building insurance	14,588
Facility management	21,850
Rent	225,428
Repair and maintenance	20,885
Supplies	5,901
Telephone	4,813
Utilities	21,428
	<hr/>
Total operations and maintenance	351,454

# KENSINGTON WOODS HIGH SCHOOL

## SCHEDULE OF EXPENDITURES - GOVERNMENTAL FUNDS - Continued FOR THE YEAR ENDED JUNE 30, 2008

See Independent Auditor's Report on Supplemental Information

### Communication Services

Contracted services	177,779
Supplies	21,011
Travel	8,573
Workshops and conferences	<u>18,797</u>
Total communication services	226,160

### Other Business Services

Data processing	22,727
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### Capital Outlay

High school	39,487
Other business services	<u>2,333</u>
Total capital outlay	41,820

### Debt Principal and Interest

	<u>88,730</u>
Total governmental fund expenditures	<u>\$ 2,117,800</u>

David M. Croskey, CPA  
Thomas B. Lanni, CPA  
Carolyn A. Jones, CPA  
Clifton E. Powell Jr., CPA

Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed  
in Accordance with *Government Auditing Standards*

**To the Board of Directors  
of Kensington Woods High School**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kensington Woods High School as of and for the year ended June 30, 2008, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated August 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Kensington Woods High School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kensington Woods High School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Kensington Woods High School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



## Compliance

As part of obtaining reasonable assurance about whether Kensington Woods High School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the board of directors, the Michigan Department of Education, and others within the entity and is not intended to be and should not be used by anyone other than those specified parties.

  
Croskey, Lanni & Company, P.C.

August 1, 2008  
Rochester, Michigan